



# **SMEs' access to public procurement contracts**

## **Executive summary**

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# 1 Introduction

## 1.1 The public procurement market and related EU policy

The 'European' public procurement market accounts for approximately 16% of all public procurement.

Recent estimates from the European Commission show that public procurement accounts for around 16% of the European Union's GDP and for 1,500 billions euros. Public procurement projects above certain thresholds have to be made public in the Official Journal of the European Union (OJEU). These so-called 'European' public procurement contracts account for approximately 16% of all public procurement.

Public procurement aims to get better value for taxpayers' money.

Optimising the operation of the internal market is seen as of vital importance for the European Union and for reaching the Lisbon objectives. Since the early 1970s, EU policy has been to open up national public procurement to competition from other Member States, based on transparent and competitive purchasing rules. These rules aim to ensure value for money for taxpayers and the efficient allocation of resources, thereby enhancing the quality of public services and improving economic growth, competitiveness and job creation. A recent study by the European Commission considers that the existing public procurement directives have indeed increased cross-border competition and reduced by around 30% the prices paid by public authorities for goods and services.<sup>1</sup>

The EC pays special attention to SMEs' access to the public procurement market.

Small and medium-sized enterprises are a unique source of innovation and competition in the internal market and account for 99.8% of the total number of EU enterprises. The European Commission has always paid particular attention to them. By facilitating their access to procurement opportunities, EU procurement policy allows those firms to strengthen their competitiveness and enables them to contribute more towards growth, employment and competitiveness in the European economy. Commission action has mainly been focused on creating a level playing field where bids from firms, whatever their size or origin, have similar chances of success. Since the early 1990s, measures have been focused specifically on SMEs' needs in terms of simplification, information, services support, and promoting cooperation between SMEs on contracts.<sup>2</sup>

The functioning of the public procurement market can be further improved.

Although there is some evidence that the current directives have a positive impact on public procurement markets and on SME participation, there are still some concerns that those markets are not yet sufficiently open and competitive. In order to respond to those challenges, the European Commission put forward proposals in May 2000 for a new legislative package that aimed to make the existing texts clearer and sim-

<sup>1</sup> EC (2004), A report on the functioning of public procurement markets in the EU: benefits from the application of EU directives and challenges for the future, Brussels, 3 February 2004. See: [http://www.europa.eu.int/comm/internal\\_market/en/publproc/general/public-proc-market-final-report\\_en.pdf](http://www.europa.eu.int/comm/internal_market/en/publproc/general/public-proc-market-final-report_en.pdf).

<sup>2</sup> See: *inter alia*; EC (1998), Public procurement: Commission communication outlines policy priorities, IP/98/233, Brussels, 11 March 1998; EC (1990), Communication from the Commission COM(90)166, Brussels, 7 May 1990; EC (1992), Promoting SME participation in public procurement in the Community, SEC(92)722, Brussels, 1 June 1992.

pler and to adapt them to modern administrative needs and to the new economy.<sup>1</sup> This package was approved by the EU's Council of Ministers and the European Parliament in early 2004<sup>2</sup>. It is meant to further increase procurement opportunities and transparency, reduce red tape, bring transaction costs down, reduce entry barriers to the market and finally to ensure that contracting authorities and bidders can save time and money by using new technology to manage the tendering process.

Future goal: significant use of e-procurement.

Complementary to this legislative initiative, in May 2003 the Commission adopted a strategy for the Internal Market for 2003-2006<sup>3</sup> in which it pays particular attention to expanding procurement opportunities and building genuinely European public procurement markets. As part of this strategy, the Commission will propose an action plan in 2004 aimed at ensuring that a significant proportion of procurement transactions are carried out on an electronic basis by 2006. Generalised e-procurement is to be achieved by 2010.

## 1.2 Study on SMEs' access to public procurement

In 2003, the European Commission asked EIM to carry out an extensive study on the access to public contracts for small and medium-sized enterprises.<sup>4</sup> In this section the analytical framework, the objectives, methodology and scope of the study are described.

### 1.2.1 Analytical framework

#### *Entry barriers and the public procurement market*

Reducing entry barriers will improve the functioning of the public procurement market.

Entry of firms into a market is an important mechanism in the economy<sup>5</sup>. Entrants have a balancing function. Firms will enter the market if the profit level is above the long-term competitive level. As a result of entry, the profit level will decrease to the long-term competitive level. Entrants are also important agents of change. Firms with new ideas or production processes will enter the market. Thus these two effects of entry contribute to allocative as well as to dynamic efficiency in the market. However, several mechanisms can prevent firms from entering the market. In other words, there can be barriers to entry that harm the allocative and dynamic efficiency and are therefore detrimental to industry dynamics and economic welfare. From this perspective, it is clear that lowering barriers to entry or preventing the creation of these barriers is an important issue in both competition and procurement policies.

<sup>1</sup> EC (2000), Commission proposes to simplify and modernise the legal framework, IP/00/461, Brussels, 10 May 2000.

<sup>2</sup> Texts will be available on [http://www.europa.eu.int/comm/internal\\_market/en/publproc/index.htm](http://www.europa.eu.int/comm/internal_market/en/publproc/index.htm).

<sup>3</sup> EC (2003), Internal Market Strategy Priorities 2003 – 2006, COM (2003) 238 final version, Brussels, 7 May 2003

<sup>4</sup> For the approach and details of the study, see: EIM Business & Policy Research/KMU Forschung Austria (2004), *The access of SMEs to public procurement contracts, final report*, Zoetermeer, The Netherlands / Vienna, Austria.

<sup>5</sup> See: J. Blees, R. Kemp, J. Maas and M. Mosselman (2003), *Barriers to entry, Differences in barriers to entry for SMEs and large enterprises*, Research Report H200301, EIM, Zoetermeer, The Netherlands.

The access of SMEs is an indicator of the openness of the public procurement market.

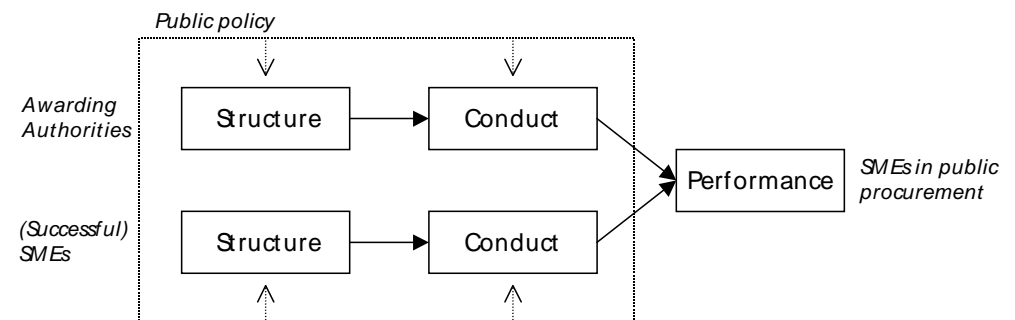
Also, for the public procurement market to function well it is essential that entry barriers are as low as possible. At the moment, entry barriers seem to hamper the functioning of an internal European public procurement market. These entry barriers apply especially to small and medium-sized enterprises. Therefore the access of SMEs to public procurement can be seen as an important indicator of the openness of the public procurement market.

*Entry barriers and structure, conduct and performance on the public procurement market*

Public policy can help to reduce the entry barriers and influence the conduct of both authorities and enterprises on the public procurement market.

In figure 1 the analytical framework is shown<sup>1</sup>. At the right hand side of the framework the performance of SMEs (the actual access of SMEs to public procurement contracts) is shown. There are several structural and conduct aspects that influence this access and where barriers can emerge. At the level of the awarding authorities, the structure of the public procurement market (such as number of contracts, size of the contracts, etc.) and the (resulting) conduct of awarding authorities on this market (such as special attention for SMEs, breaking up tenders into lots, etc.) are relevant to the resulting access of SMEs to public procurement. At SME level, the structure of the enterprise population (such as number of SMEs, size of the SMEs, etc.) and the (resulting) conduct of SMEs (such as public procurement as part of their strategy, hiring advice services on public procurement, etc.) are relevant to the resulting access of SMEs to public procurement. Public policy can influence both awarding authorities and SMEs, in order to lower the barriers to entry and to stimulate SMEs' access to public procurement.

figure 1 analytical framework



Source: EIM, 2003

1.2.2 Objectives of the study

The study on SMEs' access to public procurement had four objectives.

The study had the following four research objectives:

- 1 To systematically measure the access of SMEs to European-scale public procurement contracts.

<sup>1</sup> The analytical framework is based on the Structure-Conduct-Performance paradigm. This analytical framework is often used in industrial economics and in market competition studies. The Structure-Conduct-Performance paradigm suggests causal relationships between the structure of the market and the conduct of firms in that market and the performance of these firms. The essence of the paradigm is that the structure of the market in which the firms operate influences the conduct of the firms, and that the conduct of these firms determine their performance.

- 2 To specify the success factors, as well as the progress that needs to be made in order to bring about greater SME participation in public procurement contracts.
- 3 To identify good practices capable of being shared and enhanced by Member States.
- 4 To propose possible procedures and/or instruments making it possible to measure the development and impact of instruments designed to promote SME participation in public procurement.

This should lead to improvements in making the public procurement market more open to SMEs.

This executive summary presents the (factors influencing) SMEs' access.

This executive summary focuses on the actual access of SMEs to European-scale public procurement and the factors influencing this access<sup>1</sup>.

*Definition of small and medium-sized enterprises (SMEs) used in the study*

SMEs are enterprises with less than 250 employees.

The European Commission definition of small and medium-sized enterprises (SMEs) includes several criteria, including the number of employees, turnover and the extent of independence<sup>2</sup>. In practice, however, the independence criterion is very hard to verify, so we cannot use it in assessing which enterprises meet the requirements of being an SME<sup>3</sup>. In view of this limitation, the following definition of size classes is used:

- Micro: less than 10 employees,
- Small: 10 to 50 employees,
- Medium-sized: 50 to 250 employees,
- Large: 250 employees and more.

SMEs are enterprises with less than 250 employees.

### 1.2.3 Methodology and scope

*Methodology used*

The study started with the creation of a database based on TED 2001 and supplemented with enterprise information from D&B.

The study started with the creation of a statistical database using information contained in TED MAPP 2001. The TED MAPP 2001 is based on information published in the S series of the Official Journal of the European Union. It should be mentioned at this stage that not all public procurement is subject to the publication requirement established by EU directives. Some activities are simply excluded and contracts below EU thresholds do not appear in the Official Journal. Although, it is difficult to estimate precisely, the Commission believes that only 16% of public procurement is published in the Official Journal.<sup>4</sup>

<sup>1</sup> In order to be able to monitor the progress in SMEs' access to public procurement in the future, indicators and procedures are proposed to measure this access. The results of the study are presented in the main report.

<sup>2</sup> On 6 May 2003 the Commission adopted a new Recommendation 2003/361/EC regarding its SME definition (replacing Recommendation 96/280/EC). Since this study is based on figures from 2001, the former definition is used.

<sup>3</sup> For example, most data from the Observatory of European SMEs and from Eurostat only meet the requirement regarding the number of employees.

<sup>4</sup> EC (2004), A report on the functioning of public procurement markets in the EU: benefits from the application of EU directives and challenges for the future, Brussels, 3 February, 2004.

The information on contract awards<sup>1</sup> published in TED in 2001 was supplemented with information on enterprises from Dun & Bradstreet (D&B). This database on contract awards, successful enterprises and contracts was statistically analysed. During this stage, SMEs' access to public procurement was estimated.

This was followed by a national situation analysis ...

In order to explain the differences between Member States in SMEs' access to public procurement contracts found in the statistical analyses, KMU FORSCHUNG AUSTRIA (Austrian Institute for SME Research) carried out a national situation analysis in co-operation with members from the European Network for SME Research (ENSR) covering all European Union Member States. Information was collected on the political, legal and economic situations at local, regional and national level with regard to public procurement in each country.

... and telephone surveys of successful SMEs and experienced awarding authorities.

In order to obtain more information on factors for the success, difficulties, support, strategies and preparations of SMEs in the public procurement market, EIM carried out a telephone survey of SMEs that won public procurement contracts in 2001 (derived from the statistical database). In order to obtain more information on awarding authorities' experiences with SMEs (differences vis-à-vis large enterprises, quality of offers from SMEs, process and quality of projects carried out by SMEs, bottle-necks and problems in working with SMEs, strength of SMEs, etc.), EIM carried out a telephone survey of authorities that awarded a public procurement contract to an SME in 2001 (derived from the statistical database).

### *Scope*

Due to some limitations, the results of the study do not necessarily give the full picture regarding SMEs' access to public procurement contracts.

This was the first time that such an extensive study on SMEs' access to public procurement was carried out. The research work had to cope with certain limits in the scope of the study which should be carefully considered when interpreting the results:

- The lack of comparable and robust sources of information at national or regional levels limited the scope of the study on the basis of contract award notices published in TED 2001.
- As well as the number of employees, the European definition of SMEs contains criteria on turnover and the independence of enterprises that are not necessarily properly documented in databases of enterprises. Therefore, the study had to rely on a more pragmatic and practical definition of SMEs, based primarily on the number of employees. A stricter application of the turnover and independence criteria would certainly disqualify some companies considered as SMEs in the study. It has, however, been possible to estimate this bias (see Chapter 5).
- The two surveys carried out on the basis of the names and contact details in contract award notices clearly introduce a bias towards awarding authorities and SMEs which already have experience and success in 'European' public procurement. Since the study was aimed at identifying good practices and successful SMEs, this was of little consequence. However, the results should not be taken as representative of all SMEs' experience in dealing with public procurement issues, especially with regard to conduct, barriers and suggestions for improvement.

<sup>1</sup> Throughout the summary, we use the term 'contract awards' for both 'contract awards' and 'results of design contests'.

### 1.3 Contents of the executive summary

This executive summary discusses the main points of the study at EU level.

This summary presents the main results of the study at EU level. It starts with the institutional environment (including public policy). After that, the relevant aspects of the structure and conduct of players on the public procurement market are described. This is followed by a description of the performance, i.e. SMEs' access to public procurement, as an indicator of the openness of the European public procurement market. It ends with the main barriers to SMEs' access to the public procurement market and suggestions as to how to reduce those barriers and improve access.

## 2 Institutional environment

The institutional environment influences the size of the barriers to SMEs entering the public procurement market. Policy issues, such as transparency, legislation, information and support are important for the opportunities of SMEs on the public procurement market. This chapter describes aspects of the institutional environment.

### 2.1 Policy issues

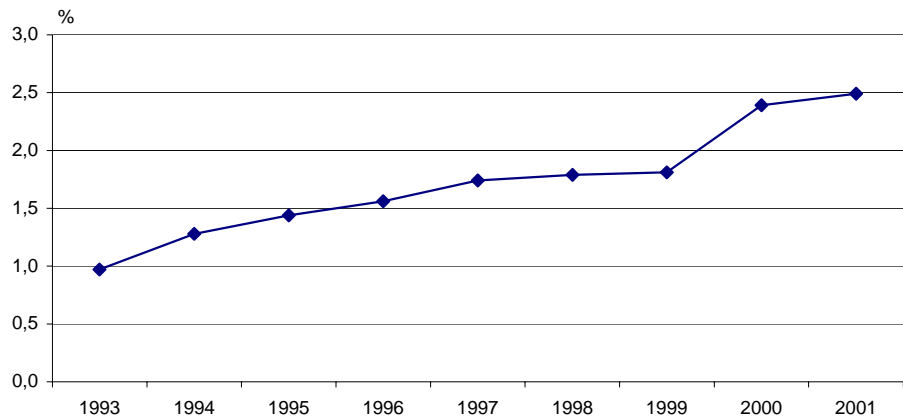
#### *Increasing transparency*

The number of openly advertised public procurement contracts continues to rise, which might lead to greater transparency in public contracts.

Increasing the transparency of public procurement in order to foster competition is an important topic on the policy agenda. Transparent and predictable procurement procedures improve economic efficiency by promoting competition amongst domestic and foreign suppliers.<sup>1</sup> SMEs will benefit from increased openness and transparency in the public procurement market. However, the scope of public procurement openly advertised in the OJEU is limited. With awarding authorities in the Member States of the EU spending about 16% of European GDP on public procurement contracts, the proportion of public procurement that is advertised openly in the OJEU could be further increased.

The percentage of openly advertised public procurement in the OJEU has, however, risen considerably – from 0.97% of European GDP in 1993 to 2.49% in 2001 on average, with a substantial increase being observed between 1999 and 2000 (see figure 2). This might be seen as an indicator of increasing transparency in public procurement.

figure 2 value of public procurement which is openly advertised, as % of European GDP, EU 15, 1993 - 2001



Source: Eurostat

<sup>1</sup> EC (2004), A report on the functioning of public procurement markets in the EU: benefits from the application of EU directives and challenges for the future, Brussels, 3 February, 2004, p. 6.

The highest levels of openly advertised public procurement can be found in Sweden (4.68% of Swedish GDP in 2001) and Greece (4.58%), the lowest in Germany (0.96%). In 2001, openly advertised public procurement increased in all Member States (compared to 2000), except Germany (no change) and Spain, Denmark, Ireland and Luxembourg (where the levels declined).

#### *Community legislation on public procurement*

Community legislation aims at increasing transparency.

The European Union has brought into force directives<sup>1</sup> aimed at coordinating the different national legislation on public procurement and making public contracts easier to handle for awarding authorities and potential suppliers. In general, Community legislation on public procurement aims at increasing transparency and at ensuring fair and equal treatment of bidders (level playing field).

#### *National legislation on public procurement*

In terms of the legal situation, it has been found that most of the Member States have established specific regulations which go beyond European directives. Public procurement legislation in the Member States regularly changes, partly due to the need to implement European Directives, and partly due to pressure from business organisations.

## 2.2 Information and support

### *Information*

Full and clear information is essential for SMEs.

Full and clear information is essential for enterprises to enter the public procurement market. Due to a lack of information, SMEs appears to be poorly informed about tender opportunities or they might be discouraged from entering the public procurement market. Awarding authorities use several channels to inform potential bidders. The most common channels are official journals, other printed media, the Internet and personal mailings. Usually, multiple channels are used to inform potential bidders of public tenders.

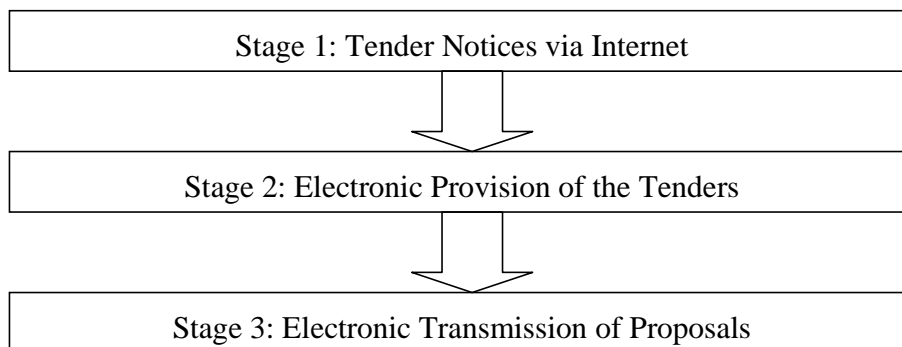
### *e-procurement*

In most of the Member States e-procurement is still at an 'experimental' stage.

Using the Internet in procurement procedures can reduce administrative burdens and improve transparency, which might lead to easier access for SMEs to public procurement. E-procurement is promoted by the EC and by Member States. Nevertheless, in general it seems that in most of the Member States e-procurement is still at an 'experimental' stage and under development. Three stages can be distinguished in e-procurement (see figure 3). In many Member States, e-procurement refers to the availability of web pages directed at both potential buyers and suppliers, e.g. providing information about tender notices (stage 1).

<sup>1</sup> See, for example, Council Directive 92/50/EEC of 18 June 1992 relating to the coordination of procedures for the award of public service contracts, Council Directive 93/36/EEC of 14 June 1993 coordinating procedures for the award of public supply contracts, Council Directive 93/37/EEC of 14 June 1993 concerning the coordination of procedures for the award of public works contracts, Council Directive 93/38/EEC of 14 June 1993 coordinating the procurement procedures of entities operating in the water, energy, transport and telecommunications sectors.

figure 3 development stages of e-procurement



Source: Austrian Institute for SME Research

#### *Support organisations*

There is a wide variety of support organisations that can help SMEs entering the public procurement market.

When SMEs are asked which obstacles they experience when entering public procurement markets, they mention the following: finding suitable opportunities, drawing up tenders within a short time span, meeting the administrative requirements, etc. To overcome these obstacles, SMEs can draw on assistance from support organisations, provided that they are easily accessible. There are many types of support organisations active in the Member States. They can be private, semi-public or public organisations. Examples of support organisations active on the public procurement market include:

- Euro Info Centres,
- Chambers of Commerce,
- Employers organisations,
- Business consultants.

The support organisations are active in providing information about tenders, supporting SMEs in drawing up proposals, searching for partners, providing general information on public procurement, etc. The organisations often provide workshops, guides, etc., to help enterprises become successful suppliers on the public procurement market. In ten Member States there are support organisations which specifically target SMEs, mainly in terms of providing information about tenders relevant to SMEs.



### 3 Structure of the public procurement market

Structural aspects of the public procurement market might influence the chances of SMEs in this market. These can be structural aspects on the demand side of the market (awarding authorities) and on the supply side of the market (SMEs). In this chapter, some structural aspects, that might influence the access of SMEs to the public procurement market, are described.

#### 3.1 Awarding authorities

The following structural characteristics on the demand side of the market appear to be relevant for SMEs' access to public procurement:

- The number of contract awards (per 1 000 enterprises),
- The size of the contract awards,
- The number of contract awards from different types of authority: especially from local authorities.

##### *Number of contract awards*

The more public procurement contracts that are awarded by authorities, the more opportunities SMEs have in the public procurement market. According to TED in 2001 there were 52 099 notices of contract awards<sup>1</sup>. Those countries with the largest numbers of contract awards are France (19 894), Germany (8 517) and the UK (5 894). Even more interesting is the number of contract awards per 1 000 enterprises. The larger this ratio, the more opportunities SMEs have. For the EU this ratio was 2.6 in 2001, ranging from 0.3 in Portugal and in Greece and 1.0 in Italy to 7.9 in France and 12.4 in Luxembourg.

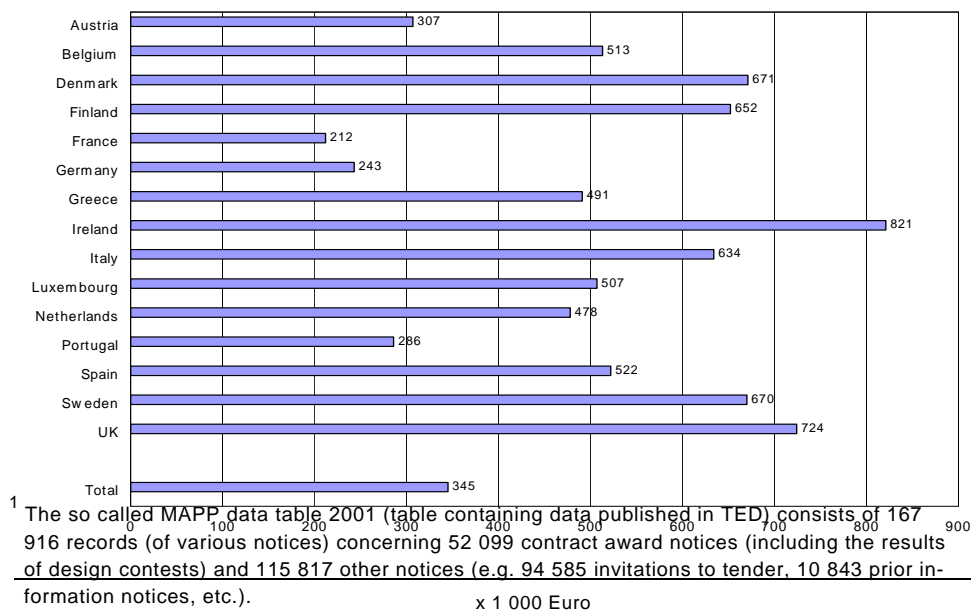
##### *Size of the contract awards*

Smaller contracts are more accessible to SMEs than larger contracts. Hence, the size of the contract is very relevant to SMEs' access to public procurement contracts. The median size of contract in 2001 in TED was €345 000, ranging from €212 000 in France to €821 000 in Ireland (see figure 4). As seen before, the size of contracts won by a given SME (€249 000) is much smaller than those won by a given large enterprise (€453 000).

France, Germany and the UK are the Member States with the largest numbers of contract awards.

Lower contract sizes enhance the access opportunities of SMEs on the public procurement market.

figure 4 median values of contract awards (x €1 000) per country in 2001



Source: EIM, 2003; based on TED, 2001

The large number of smaller contracts from local authorities are of most benefit to SMEs.

#### *Type of awarding authority and sector*

Since contract size is one of the most important aspects influencing SMEs' access to public procurement, authorities awarding smaller contracts are of most interest to SMEs. In TED 2001 the median value of contracts from local authorities was €306 000 and the lowest median value was €281 000 from the armed forces. The local authorities thereby have the largest share of the number of contract awards, namely 60%.

Sectors with large numbers of low-value contracts are of most interest to SMEs. In some countries, France (€200 000), Germany (€233 000) and Austria (€298 000), the median value of contracts in the construction sector is relatively low.

### 3.2 SMEs

The following structural characteristics on the supply side of the market seem to be relevant for SMEs' access to public procurement:

- The number of SMEs,
- Average size of SMEs.

#### *Number of SMEs*

The higher the number of contract awards per 1,000 SMEs, the better the opportunities for SMEs.

In 2001, there were 20 099 000 enterprises in the EU Member States. 99.8% of these enterprises had less than 250 employees and were SMEs according to the definition used in this study. Italy with about 4 200 000, Germany (ca. 3 600 000) and the UK (ca. 3 500 000) have the largest numbers of enterprises. In all Member States the percentage of SMEs in the enterprise population is between 99.5% and 100%. As previously stated, the number of contract awards per 1 000 SMEs is relevant to SMEs' access and varies considerably between the Member States. The higher this ratio, the more chances there are for SMEs to be successful in the public procurement market.

#### *Average size of SMEs*

The larger the average size of SMEs, the easier the access.

In general, larger enterprises have easier access to public procurement than smaller enterprises. Hence, in countries where the average size of SMEs is relatively high, they can be expected to have greater access to public procurement. In the EU the average number of employees per SME was 3.9 in 2001, ranging from 2.0 in Greece and 2.8 in Italy to 6.8 in Austria and 7.0 in Luxembourg.

## 4 Conduct on the public procurement market

The previous chapter described the possible influence of the structure of the public procurement market on SMEs' access. This chapter discusses the conduct of the players in this market (both awarding authorities and SMEs) and how this conduct may reduce entry barriers on the public procurement market.

### 4.1 Awarding authorities

The following characteristics of the conduct of awarding authorities appear to be relevant in reducing entry barriers and improving SMEs' access to public procurement:

- Experience and professional procurement,
- Provision of information,
- Breaking up tenders into smaller lots,
- Special measures for SMEs.

#### *Experience and professional procurement*

SMEs can benefit from experienced and professional awarding authorities.

An awarding authority with significant experience would be advantageous to SMEs entering the public procurement market, because that experience should lead to professional procurement procedures, which will reduce uncertainty and unnecessary barriers for tenderers (among which are SMEs). From the survey of authorities that awarded a public procurement contract to an SME (in 2001) it was noticeable that most of the authorities have considerable experience in the field of public procurement, both above and below the EU thresholds. 89% of the authorities have central guidelines on European procurement and 63% of the authorities provide general guidelines to enterprises on how best to prepare an offer.

#### *Provision of information*

The provision of full, clear and transparent information by authorities can encourage SMEs to participate in the public procurement market.

Full and clear information about invitations to tender and within these invitations to tender is essential for participation by enterprises in general and SMEs in particular. A lack of full and clear information may discourage SMEs from participating in the public procurement market.

Awarding authorities state that they use a large variety of channels to inform potential bidders, ranging from prior information notices and provision of information via fax, the Internet and e-mail, to official tender publications. One quarter of the awarding authorities make use of some form of e-procurement. Using e-procurement can increase the transparency and reduce the administrative burden of tender procedures.

From the survey of successful SMEs it can be concluded that the majority of SMEs (around 70%) feel properly informed about the opportunities. Nevertheless, a lack of information and unclear information is often mentioned as a major problem for SMEs in the public procurement market.

Breaking up tenders into smaller lots is often considered by awarding authorities.

#### *Breaking up tenders into smaller lots*

As seen before, the size of the contract is very important for SMEs in the public procurement market. Smaller contracts are more easily accessed by SMEs. Hence, SMEs will benefit from breaking up tenders into smaller lots. From the survey we notice that 85% of awarding authorities consider breaking up tenders into smaller lots (varying from sometimes to always). There are large differences between Member States. In Germany (93%) and France (98%) authorities consider dividing tenders into smaller lots most often, while this is seldom the case in the Netherlands (30%). Authorities may consider breaking up tenders into smaller lots, but do not always do so. There may be some disadvantages in doing so as, for example, it might lead to higher coordination costs or to the loss of economies of scale.

More than half of the awarding authorities try to improve the accessibility of tender procedures to SMEs.

#### *Additional measures for SMEs*

Authorities can take the extra obstacles faced by SMEs in the public procurement market into account and help them with additional measures. More than half (57%) of the awarding authorities say that they take measures to improve the accessibility of tender procedures for SMEs. The main measures taken are to divide tenders into smaller lots, provide extra information and encourage co-operation.

## 4.2 SMEs

The following characteristics concerning the conduct of SMEs seem to be relevant in coping with entry barriers and improving their access to public procurement:

- Experience in the public procurement market,
- Strategy,
- Asking questions,
- Co-operation.

Most SMEs participating in the public procurement market have considerable experience in this market.

#### *Experience in the public procurement market*

SMEs with a lot of experience in the public procurement market will more readily participate in new tender procedures. Once the initial barriers to entering the public procurement market have been surmounted, SMEs will further explore the public procurement market. From the survey of successful SMEs, it can be seen that most successful SMEs have a great deal of experience in the public procurement market. In general, they participate in a relatively large number of tenders and the public sector in particular is often a major market for them.

For most successful SMEs getting public procurement contracts is part of their strategy.

#### *Strategy*

To participate successfully in the public procurement market, it helps considerably when SMEs have a well-considered approach strategy. The survey of successful enterprises showed that obtaining public procurement contracts was part of the strategy adopted by 80% of successful SMEs. As administrative requirements are an important part of most public procurement procedures, one aspect of strategic behaviour in the public procurement market is to regularly update administrative documents for public tenders. In fact, 86% of the successful SMEs update their administrative documents on a regular basis.

### *Asking questions*

Asking questions can help SMEs to be successful in the public procurement market.

Full and clear information is essential in order for SMEs to participate in the public procurement market. A lack of full and clear information is often mentioned as an obstacle in the public procurement market. When information is incomplete or unclear, potential bidders can always put questions to the authority. 90% of the successful SMEs ask questions of the awarding authority, sometimes, mostly or always. Only 40% ask questions mostly or always.

### *Co-operation*

Although co-operation can help SMEs entering the public procurement market, only 13% of the successful SMEs co-operate on a regular basis.

One way of improving the accessibility of SMEs is co-operation with other enterprises. By co-operating with other enterprises, SMEs can participate in public procurement contracts that are inaccessible for a single SME, because the contract sizes are too large or it lacks certain knowledge or experience. However, only 13% of the successful SMEs appear to co-operate with others in tenders on a regular basis, and 41% co-operate occasionally.



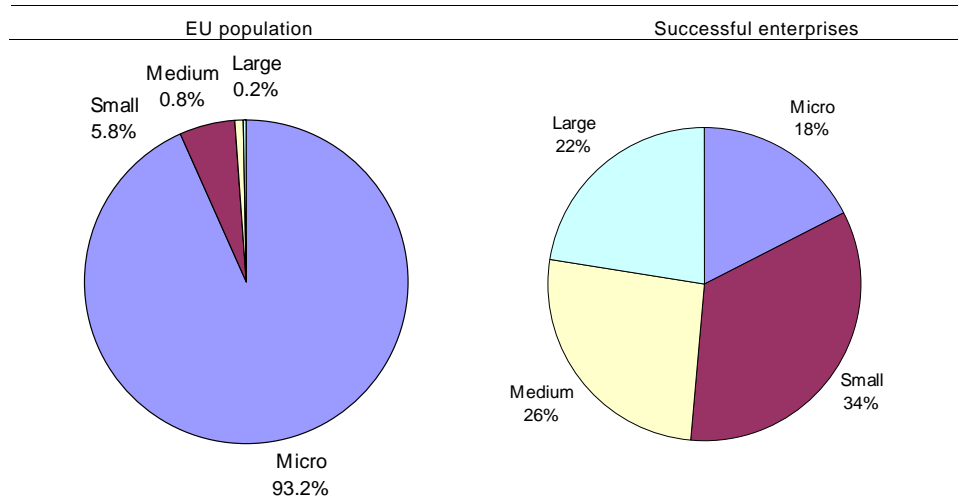
## 5 Performance: SMEs' access to public procurement

The current involvement of SMEs in public procurement contracts seems to leave room for improvement.

*Successful enterprises*

The access of SMEs to public procurement can be seen as an important indicator of the openness of the public procurement market. One way of measuring this is to measure the proportion of SMEs in enterprises that won a public procurement contract. EIM analysed the characteristics of 16 341 successful enterprises (that won one or more of the contract awards in TED 2001). Analysing the size classes of these enterprises and comparing them with the total enterprise population gives an indication of the access of SMEs to public procurement contracts. 78% of the successful enterprises are SMEs, while 99.8% of the enterprise population is made up of SMEs (see figure 5). There does, therefore, seem to be room for improvement in SMEs' involvement in public procurement. The percentage of SMEs amongst the successful enterprises ranges from 65% in the UK to 92% in Luxembourg.

figure 5 comparison of the size-class distribution of successful enterprises in 2001 and the enterprise population 2001



Source: EIM, 2003; based on TED 2001 and Observatory of European SMEs.

According to the strict EC definition of SMEs, between 53% and 78% of enterprises that won a public procurement contract is an SME.

There might be some bias in the access rate because some of the enterprises with less than 250 employees are possibly not SMEs in terms of the strict EC definition (including criteria on turnover and independence). Using the results from the survey of SMEs that won a public procurement contract, some estimates of the possible bias can be made. With this information, it can be concluded that using the European Commission's 'narrow' or strict definition of SMEs, between 53% and 78% of successful enterprises are SMEs. Note however that according to the EC definition the share of SMEs in the population will also decrease (considerably). In the remainder of this executive summary, the definition of SMEs used is that of enterprises with less than 250 employees. When interpreting the results one should remember that access by SMEs might be lower in the EC definition.

Other indicators confirm that there seems to be room for improvement regarding the involvement of SMEs in public procurement contracts.

#### *Other indicators*

There are other indicators which can be used to approach the involvement of SMEs in public procurement, such as the distribution of employees, turnover and the value of the contracts across SMEs and large enterprises. From estimates of the distribution of employment and turnover across successful enterprises, it appears that more than 90% of the employees and turnover of successful enterprises is concentrated in large successful enterprises. In the total EU population of enterprises, these figures are 34% and 47% respectively. This offers further evidence that there seems to be room for improvement in involving SMEs in public procurement contracts. However, it should be noted that because some of the large successful enterprises are very large (e.g. multinationals), the employment and turnover figures might not be very suitable indicators.

It is probably better to look at estimates of the distribution of the value of the contracts won by SMEs and large enterprises. It can be estimated that 43% of the value of public procurement contracts is won by SMEs, and that SMEs in the EU enterprise population account for 53% of the total turnover. This indicates that there seems to be room for improvement in involving SMEs in public procurement, although the differences in this comparison are less than those when comparing the indicators considered above.

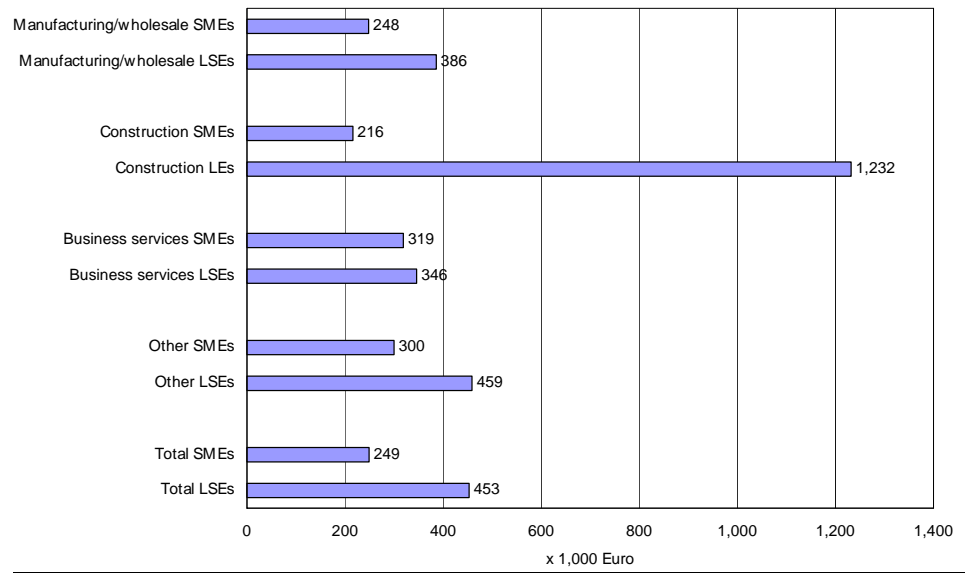
The size of the contract, type of authority and sector are relevant for the success of SMEs in the public procurement market.

#### *Successful SMEs compared with successful large enterprises*

There are some differences in the public procurement markets in which SMEs get their contracts and those in which large enterprises get their contracts. In general the contracts won by SMEs are smaller than contracts won by large enterprises. The median value of contracts won by an SME is €249 000 as against €453 000 for those won by a large enterprise. Since local authorities generally have smaller contracts than other awarding authorities, SMEs get relatively more contracts from local authorities. Looking at individual sectors<sup>1</sup>, it can be seen that most contracts are in the manufacturing/wholesale sector (44% of the contracts for SMEs and for large enterprises). SMEs get relatively more contracts in the construction sector (28% of the contracts for SMEs and 15% of the contracts for large enterprises) and less in the business services sector (17% of the contracts for SMEs and 27% of the contracts for large enterprises). The combined value of the relatively large number of contracts for SMEs in the construction sector is much smaller than those for large enterprises in the construction sector (see figure 6).

figure 6 median values of contract awards (x €1 000) won by SMEs or LSEs, by sector in 2001

<sup>1</sup> The division of contracts into sectors is based on the contract's CPV-code.



Source: EIM, 2003; based on TED, 2001.



## 6 Improving SMEs' access to public procurement

### *Functioning of the public procurement market*

The public procurement market seems to leave room for further improvement.

From the study we can learn that the functioning of the public procurement market can be further improved. There seems to be no unified European public procurement market yet. The public procurement market appears to be fragmented and cross-border procurement is limited<sup>1</sup>. The existence of entry barriers might hamper the functioning of the public procurement market, in particular for SMEs. Public procurement policy can help to further open up the public procurement market (especially for SMEs), by creating a transparent framework and by influencing the players on the market (authorities and enterprises) to create a market that functions well.

### *Barriers for SMEs*

Entry barriers should be further reduced.

The problems SMEs say they meet in tendering for public procurement contracts under European regulations are mostly 'design problems': poor/insufficient information and unclear wording in the invitations to tender. Tight deadlines for drawing up a tender are probably a secondary effect of both these problems and the other main problem mentioned by SMEs is a well-known one: the administrative burden.

### *Suggestions for reducing barriers and improving SMEs' access to public procurement*

From the study we can formulate a variety of suggestions to improve SMEs' access to public procurement. The extent to which these suggestions apply to different countries, authorities and SMEs will differ widely, depending on the progress already made in the field of public procurement. Hence, the suggestions mentioned in this section will not apply to the same extent to every country, authority or SME.

### *Suggestions for SMEs*

SMEs can improve their ability to cope with entry barriers.

The main suggestions revealed by the study for SMEs to cope with entry barriers are to:

- increase SMEs' awareness of the huge opportunities offered by the public procurement market,
- make entering the public procurement market part of their business strategy,
- look actively for information on the public procurement market (regulations, opportunities, practice, the content of invitations to tender, how to draw up proposals or meet the requirements in public procurement procedures, etc.),
- engage more in co-operation with other (large) enterprises.

### *Suggestions for awarding authorities*

Awarding authorities can reduce entry barriers.

Three main issues for awarding authorities with regard to reducing entry barriers and improving SMEs' access to public procurement emerge from the results of the study:

- smaller size contracts,
- increased and improved information,

<sup>1</sup> See e.g.: EC (2003), Internal Market Strategy, Priorities 2003 – 2006, COM (2003) 238 final version, Brussels, 7 May 2003 and EC (2004), A report on the functioning of public procurement markets in the EU: benefits from the application of EU directives and challenges for the future, Brussels, 03/02/2004.

- reducing administrative burdens.

Suggestions based on the study are given below for awarding authorities.

Concerning smaller size contracts:

- (consider) dividing more tenders into lots,
- inclusion of opportunities for co-operation in the invitations to tender.

Concerning increased and improved information:

- make use of prior information notices (and include clear and well-considered information),
- include clear and well-considered information in the invitations to tender,
- encourage potential bidders to ask questions and create easily accessible means to do so,
- use the huge opportunities offered by information technology to provide information,
- inform potential bidders about the existence of support organisations (help and training).

Concerning the reduction of administrative burdens:

- draw up central guidelines (to simplify and unify procurement procedures),
- make use of pre-selection procedures,
- adopt a critical approach to requirements in an invitation to tender (what is really needed?),
- experiment with and extend e-procurement,
- give potential bidders guidelines on drawing up their proposals.

#### *Examples of best practice*

The following box contains examples of best practice in the field of public procurement and SMEs. One example is included for each Member State. For more information on these and other examples please refer to the main report.

<i>Country</i>	<i>Example of good practice</i>	<i>Refers to</i>
Austria	Bundesvergabekontrollkommission (BVKK), acting as arbitration board during the procurement procedure	Surveillance
Belgium	JEPP – Joint Electronic Public Procurement	Information on public procurement tenders and introducing e-procurement
Denmark	Konkurrencestyrelsen (KS), the Danish Competition Authority	Surveillance
Finland	Sentteri, an e-procurement solution developed by Trading House Hansel	e-procurement
France	Participation en trésorerie à court terme pour le financement des créances publiques (Short-term participation in financing SMEs which have won public contracts)	Financial assistance of SMEs
Germany	handwerk.de/bauauftrage (Construction Tender Offers)	Information about tenders

<i>Country</i>	<i>Example of good practice</i>	<i>Refers to</i>
Greece	'Μητρώο Ελληνικών Επιχειρήσεων Βιομηχανικής Υπεργολαβίας' ( <a href="http://www.eommex.gr/subcontractors">http://www.eommex.gr/subcontractors</a> ) (online directory of sub-contracting enterprises in manufacturing)	Facilitate co-operation
Ireland	web page go-source.com, run by Enterprise Ireland and Invest Northern Ireland (both state development agencies) as well as InterTradeIreland (a joint North-South cross-border body)	Information on public procurement
Italy	82% of the awarding authorities which have experience with SMEs provide general guidelines to enterprises on how best to prepare a bid	Guidance
Luxembourg	The Centre of Resources for Information Technologies in Building (CRTI-B), introduced standardised contractual and technical documents for public procurement contracts	Reducing administrative burden
Netherlands	Actieplan Professioneel Aanbesteden en Inkopen (Action Plan Professional Procurement and Purchase)	Professionalisation of public procurement by authorities
Portugal	'Programa Nacional de Compras Electrónicas' (Portuguese Programme for e-procurement)	Improving transparency and introducing e-procurement
Spain	'Oferta de Contratación Pública' (Public Procurement Supply)	Information on public procurement tenders for SMEs
Sweden	e-procurement system, IHS	e-procurement and information
UK	IDeA Marketplace	e-procurement
EU and all MS	Euro Info Centres (EIC)	Information and advice